

Message Text

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2654

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

UNCLAS ISLAMABAD 10090

E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT : BANKING : INCREASE IN INTEREST RATES

1. THE STATE BANK HAS RAISED THE MINIMUM INTEREST RATES PAYABLE ON TIME DEPOSITS, EFFECTIVE OCTOBER 1. THIS MAY HAVE APPLICABILITY TO THE RUPEE DEPOSITS THE EMBASSY MAINTAINS IN THREE AMERICAN BANKS.

2. THE NEW INTEREST RATE SCHEDULE CALLS FOR MINIMUM INTEREST RATES OF BETWEEN FIVE AND 11-3/4 PERCENT, DEPENDING ON THE TERM AND TYPE OF DEPOSIT INVOLVED. THE PREVIOUS SCHEDULE STIPULATED MINIMUM INTEREST RATES OF 4 TO 11 PERCENT. AS IN THE PAST, THE STATE BANK PERMITS BANKS TO PAY HIGHER INTEREST RATES THAN THOSE CALLED FOR IN THE MINIMUM SCHEDULE, PROVIDING THAT THE SAME RATE IS GIVEN TO ALL DEPOSITORS WITHOUT DISCRIMINATION.

3. OF PARTICULAR INTEREST IS THE CHANGE IN THE MINIMUM INTEREST RATES FOR "SPECIAL NOTICE DEPOSITS" WITHDRAWABLE ON 7-29 DAYS NOTICE. THE NEW MINIMUM INTEREST RATE ON THESE ACCOUNTS IS FIVE PERCENT, AS COMPARED WITH FOUR PERCENT UNDER THE PREVIOUS SCHEDULE. AS DEPARTMENT AND TREASURY ARE AWARE, THE USDO HAS ACCOUNTS OF THIS TYPE IN EACH OF THE THREE AMERICAN BANKS OPERATING IN PAKISTAN (BANK OF AMERICA, AMERICAN EXPRESS AND FIRST NATIONAL CITY BANK). AT PRESENT, THESE ACCOUNTS ARE EARNING 4 AND HALF PERCENT INTEREST. BECAUSE THE INTEREST IN THEM WAS MOST RECENTLY CONSOLI-

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DATED ON SEPTEMBER 15, RESULTING IN WHAT TECHNICALLY AMOUNTS

TO A NEW DEPOSIT BEING MADE ON THAT DATE, OUR PRESENT ACCOUNTS ARE APPARENTLY NOT AFFECTED BY THIS RULING. HOWEVER, THE "NEW" DEPOSIT WE MAKE AFTER CONSOLIDATING THE NEXT SEMI-ANNUAL INTEREST PAYMENT ON MARCH 15, 1976 WILL BECOME SUBJECT TO THIS NEW REGULATION.

4. THE FOUR AND HALF PERCENT YIELD ON OUR TIME ACCOUNTS WAS THE RESULT OF AN AGREEMENT LAST MARCH BETWEEN THE U.S. TREASURY AND THE THREE AMERICAN BANKS CONCERNED, RAISING THE YIELD ON USG TIME DEPOSITS FROM 3 PERCENT TO 4 AND HALF PERCENT. DURING THE TIME WHEN THE USG WAS RECEIVING 3 PERCENT, OUR TIME DEPOSITS IN THE AMERICAN BANKS HAD BEEN DIVIDED BETWEEN INTEREST BEARING AND NON-INTEREST BEARING ACCOUNTS, SO AS TO ACHIEVE A WEIGHTED AVERAGE YIELD OF 3 PERCENT WHILE PERMITTING THE BANKS TO COMPLY WITH THE OLD MINIMUM INTEREST RATE SCHEDULE. THIS ARRANGEMENT WAS ENDED WHEN THE YIELD WAS RAISED TO 4 AND HALF PERCENT, BECAUSE A UNITARY ACCOUNT AT 4 AND HALF PERCENT WAS LEGAL UNDER THE OLD SCHEDULE.

5. ONE OF THE AMERICAN BANKS HAS TOLD US THAT IT ASSUMES THAT ITS AGREEMENT WITH THE US TREASURY ON A 4 AND HALF PERCENT YIELD WILL CONTINUE TO HOLD. ALTHOUGH THE BANKS HAVE NOT COMPLAINED SPECIFICALLY ABOUT THE IMPACT ON THEIR PROFITABILITY OF THE NEW HIGHER MINIMUM INTEREST RATES, THEIR GENERAL PROFIT PICTURE HAD BEEN AN IMPORTANT ELEMENT IN THEIR DISCUSSIONS WITH THE TREASURY LAST MARCH, AND THE HIGHER INTEREST REQUIREMENT WILL INEVITABLY PLACE SOME BURDEN ON THEM.

6. WE WOULD APPRECIATE SOME ADVANCE WORD AS TO WHETHER TREASURY PROPOSES TO LEAVE THE YIELD ON USG TIME DEPOSITS AT 4 AND HALF PERCENT OR WHETHER TREASURY WISHES TO TRY TO NEGOTIATE A NEW AGREEMENT WITH THE AMERICAN BANKS. IN THE FORMER CASE, THE USDO WOULD PRESUMABLY HAVE TO REINSTATE, STARTING NEXT MARCH 15, THE TYPE OF ARRANGEMENT PREVAILING BEFORE MARCH 1975., I.E., PUTTING SOME OF OUR FUNDS INTO A TIME DEPOSIT BEARING THE REQUIRED 5 PERCENT INTEREST AND THE REST IN NON-INTEREST BEARING ACCOUNTS, IN ORDER TO ACHIEVE A WEIGHTED AVERAGE OF 4 AND HALF PERCENT WHILE COMPLYING WITH PAKISTAN BANKING REGULATIONS.

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7. CONSULATE GENERAL KARACHI CONTRIBUTED TO THIS MESSAGE.
BYROADE

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